Pricing and marketing strategy

Pricing and Marketing Strategy

1. No price war with Coke in the Carbonated Soft Drinks market segment

The Carbonated Soft Drinks market is at a very mature stage in its lifecycle. The market is primarily controlled by the two giants Coca Cola and Pepsi. Both these companies have very powerful brand names which have been dominating the market for several decades.

PepsiCo's competition with Coca Cola is a fight among equals, and hence price cannot be a distinguishing factor which can help tilt the balance towards one direction. Reducing the price of the carbonated soft drink products (e. g. Pepsi, Mountain Dew) would only trigger a price war, since Coca Cola would retaliate by mirroring the price cut to maintain parity. The result would only be reduced profit margins for both these companies, and no competitive advantage obtained. Both the companies have been guilty of engaging in price wars in the past. The logical approach for Pepsi would be to rely on differentiation and not pricing in this market segment.

2. Bundle together beverages with consumer foods to offer reduced combined prices in contracts with retailers

One pricing strategy which Pepsi can successfully employ is to make a combined offering of its beverages and consumer foods to major customers and retailers such as Wal-Mart, Kroger etc. Combining the sales of the two separate SBUs for one channel would provide PepsiCo with the chance to offer additional discounts on the purchase of bulk quantities of the products of both. This would be a win-win situation for both the retailer and PepsiCo, since it could facilitate greater sales at a slightly lower price which would ultimately result in higher profit margins for PepsiCo while the retailer would benefit from the lower purchase costs.

PepsiCo's consumer foods division is the number one in the world. Hence, it is in the best position to make such a move. Coca Cola would not be able to replicate this step, since it does not have a Foods division which has as much demand as the Lays or Quaker brands of Pepsi Consumer Foods. Thus, this could be a true differentiating move which can lead to a competitive advantage.

1 (August 07 2009) Variable Pricing and Brand Destruction Last accessed on Aug 24 2009 from http://www. brandingstrategyinsider. com/2009/08/variable-pricing-the-ultimate-branddestruction-machine. html

3. Steal Coca Cola's market share by targeting their domination in sales to restaurants and fast-food chains.

Coca Cola has achieved its dominant position in the Carbonated Soft Drinks market by establishing a huge lead in its sales to restaurants and fast-food chains. These are recurring customers of Coca Cola who give large sales orders. If Pepsi American Beverages is able to increase its penetration in this segment, it would have a great chance to overhaul Coca Cola and become the leading player.

PepsiCo can look to redraw the contracts it offers to its customers in the restaurant business by making it more cost-effective. PepsiCo can look to have marginal profits in the first five years of the contracts. By sacrificing profits for market share, Pepsi can gain a foothold in this segment and establish lasting relationships with fast-food chains and restaurants. The bundling strategy can be used here as well, since most fast-food places and restaurants need foods such as chips and cookies on a regular basis.

4. Exploit profitability options by building on the strategy of price variance

Pepsi American Beverages should continue to follow the pricing approach of varying their prices as per location, demographics, channel, season and demand. Instead of having a uniform price across all channels, exploiting these minor differences in demand and customer power can help them maximize their profits without compromising on their sales.

For example, the prices of cold beverages if marginally hiked in summer would not adversely affect the sales too much, since their demand would have increased proportionately. Also, since the brand name of Pepsi is so strong, the consumers would rarely even look at its price before buying a drink. Even if the customers do notice this increase, their acceptance of the quality of the product would prevent them from changing their choice at that instant for the sake of five or ten cents. Similarly, the prices of the beverages are varied marginally depending on whether the location is a big city or a college town.

The prices can also be varied based on where the customer is buying the beverage from. For example, beverages sold in retail stores can be cheaper, since the customer has a lot of choice in making his purchase decision at that time. However, beverages sold through vending machines would offer the least flexibility for the customer, and can be priced higher with the expectation that a customer buying from a vending machine would only do so if he is thirsty and not too finicky about price at that time. 2

2 (April 30 2003) Pepsi's Strategy in the Carbonated Soft Drinks market,

Term Project

Retrieved from www. mcafee. cc/Classes/BEM106/Papers/UTexas/2003/Pepsi. pdf

5. Continue to offset production costs by slightly raising and decreasing prices when required

According to PepsiCo, it raised prices of its products to adjust the increase in raw material costs in the initial part of 2009. It also tried to attract thrifty customers with promotions or by offering them more amount of the item for the same price.

Similarly, PepsiCo can continue to offset their production costs by seasonally adjusting the prices of the beverages. The relative price insensitivity of the products will lead to a low impact on sales. Thus, Pepsi can avoid unnecessary losses due to factors out of their control, such as increasing oil and energy prices which can shoot up product costs

6. Be ready to explore the option of rebranding whenever required from time to time

PepsiCo carries out several initiatives to re-brand itself from time to time to target changes in customer behavior. The most notable initiative was the focus on youth in the New Generation advertising campaigns of the previous century 4. Pepsi should continue this approach of re-inventing their brands from time to time, in order to advertize their presence further.

However, caution must be exerted that re-branding is not done just for the sake of doing so. The most obvious example from recent history is their unsuccessful marketing campaign to rebrand their Tropicana label and simplify its brand image. In the process, the Orange and the straw image was removed from the Tropicana cartons. This image used to add an appealing look to the carton, and was the signature of the brand. Removing it caused inconvenience to the customers to identify their favorite brand among a horde of other juices, since it no longer had a distinguishing look to it. After receiving several complaints from customers, Pepsi scrapped this new venture and reverted to the original look for Tropicana with a loss of millions incurred in this whole activity.

3 (July 22 2009) Pepsi 2Q Profit falls 2 Percent on Sales Drop, Last accessed Aug 24 2009 from http://www. foodmanufacturing. com/scripts/ShowPR~RID~11567. asp

4 Pepsi, Wikipedia Article Last accessed Aug 24 2009 from http://en. wikipedia. org/wiki/Pepsi

5 (March 22 2007) QTG Raises Prices on Gatorade Products, Last accessed Aug 24 2009 from http://www. allbusiness. com/retail-trade/food-stores/4491094-1. html

Another example which has not gone awry but which posed significant risk was the re-modeling of the Gatorade brand to just the ‘ G’ on all of its bottles with Gatorade written in small letters below. Not many customers liked the removal of the name of their favorite drink. The response to this initiative has been mixed so far and time will tell whether it would have any impact, whether positive or negative on the sales of Gatorade.

It is important to evaluate public response to any branding change before launching the initiative, something which PepsiCo foolishly did not do before its Tropicana venture. Learning from this lesson, PepsiCo should be careful about executing any such actions in the future

7. Be Price sensitive in the case of mineral water products such as Aquafina

The price inelasticity seen in the carbonated soft drinks is not present in the mineral water segment. The mineral water market is still relatively new and in the growth phase, and far away from being in a mature stage of its lifecycle. Also, if mineral water is priced too expensively, most people would refrain from spending money on them. 7 The mineral water brands don't have the same brand loyalty as a soda drink brand has. 7 Also, plain water is a strong substitute to mineral water, in case price becomes too high.

8. Keep an eye out for pricing moves by Coca Cola

As PepsiCo would look to use their pricing strategy to penetrate the market deeper, it can be said with a fair amount of certainty that Coca Cola would also have their set of plans in motion at the same time. Also, if Pepsi looks to poach upon Coca Cola's customers in the restaurant or fast food business as suggested in point 3, Coca Cola would certainly try to revise their strategy in order to maintain status quo.

Hence, Pepsi needs to closely monitor the moves that their main rival makes and try to dynamically address their pricing and marketing strategies to account for such moves. This should not be a regular or scheduled activity but instead should be looked upon as a continuous process.

6 (January 15 2009) Gatorade's new marketing plan followed to the letter, Last accessed Aug 24 2009 from http://www. palmbeachpost. com/sports/content/sports/epaper/2009/01/14/a1a_gatorade_0115. html

7 (Aug 23 2002) Enhanced Waters pour into shelves, USA Today article, Last accessed on Aug 24 2009 from http://www. usatoday. com/money/advertising/2002-08-22-water_x. htm

References

1. (August 07 2009) Variable Pricing and Brand Destruction Last accessed on Aug 24 2009 from http://www. brandingstrategyinsider. com/2009/08/variable-pricing-the-ultimate-branddestruction-machine. html

2. (April 30 2003) Pepsi's Strategy in the Carbonated Soft Drinks market, Term Project

Retrieved from www. mcafee. cc/Classes/BEM106/Papers/UTexas/2003/Pepsi. pdf

3. (July 22 2009) Pepsi 2Q Profit falls 2 Percent on Sales Drop, Last accessed Aug 24 2009 from http://www. foodmanufacturing. com/scripts/ShowPR~RID~11567. asp

4. Pepsi, Wikipedia Article Last accessed Aug 24 2009 from http://en. wikipedia. org/wiki/Pepsi

5. (March 22 2007) QTG Raises Prices on Gatorade Products, Last accessed Aug 24 2009 from http://www. allbusiness. com/retail-trade/food-stores/4491094-1. html

6. (January 15 2009) Gatorade's new marketing plan followed to the letter, Last accessed Aug 24 2009 from http://www. palmbeachpost. com/sports/content/sports/epaper/2009/01/14/a1a_gatorade_0115. html

7. (Aug 23 2002) Enhanced Waters pour into shelves, USA Today article, Last accessed on Aug 24 2009 from http://www. usatoday. com/money/advertising/2002-08-22-water_x. htm